

Annual Financial Report

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# Russell World Equity Strategies Fund

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For the year ending 30 June 2011

# **Russell World Equity Strategies Fund**

ARSN 092 808 092

## **Financial statements**

**For the year ended**

**30 June 2011**

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## Financial statements

For the year ended

30 June 2011

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## Directors' Report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the Responsible Entity of Russell World Equity Strategies Fund, present their report together with the financial statements of Russell World Equity Strategies Fund ("the Fund") for the year ended 30 June 2011.

### Principal activities

The Fund invests predominantly in a broad range of international shares listed in developed international markets, through investing in Russell Global Equity Strategies Fund - \$NZ Hedged and listed securities on the New Zealand Stock Exchange. The fund also has exposure to global real estate securities through the Russell Europe based Global Real Estate Fund as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The Fund utilises a Multi Style, Multi Manager investment approach which combines the individual strengths of multiple investment managers.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

### Directors

The following persons held office as directors of Russell Investment Management Ltd during the year or since the end of the year and up to the date of this report:

Alan N Schoenheimer  
Glenn T Smith  
Symon J Parish  
Christopher A Corneil  
Kenneth W Willman

### Review and results of operations

During the year, the Fund continued to invest in accordance with its investment objective and investment strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

#### Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2011	30 June 2010
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	18,198	18,253
Distribution paid and payable (\$'000)	3,933	-
<i>Distributions</i>		
Distribution (cents per unit)	2.79	-

## Directors' Report (continued)

The key difference between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Net assets for unit pricing purposes	116,477	122,048
Difference between net market value (for unit pricing) and fair value (for financial statements) of financial assets held at fair value through profit or loss	1,850	(385)
Effect of classification of net assets attributable to unitholders as liabilities	<u>(118,327)</u>	<u>(121,663)</u>
Net assets under Australian Accounting Standards	<u>-</u>	<u>-</u>

### Distribution

Distributions of income generally occur quarterly with a final annual distribution as at 30 June each year. Realised capital gains are distributed only at 30 June each year. A detailed summary of the Distribution to unitholders for the year can be found in note 8 of the financial statements.

### Options

There were no options over interests in the Fund at any time during the year.

### Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

### Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the Fund. So long as the officers of Russell Investment Management Ltd act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

## Directors' Report (continued)

### Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 12 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 12 of the financial statements.

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 7 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

### Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors.



Director

Sydney  
27 September 2011



### Auditor's independence declaration

As lead auditor for the audit of Russell World Equity Strategies Fund for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Russell World Equity Strategies Fund.

A handwritten signature in black ink that reads 'TJO Peel'.

TJO Peel  
Partner  
PricewaterhouseCoopers

Sydney  
23 September 2011

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**Statement of comprehensive income**

		Year ended	
		30 June	30 June
		2011	2010
	Notes	\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets not held at fair value through profit or loss		25	30
Dividend and distribution income		5,958	1,284
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	13,875	18,760
Other operating income		-	81
<b>Total net investment income/(loss)</b>		<u>19,858</u>	<u>20,155</u>
<b>Expenses</b>			
Management fees	12	1,356	1,569
Dividend withholding tax expense		143	167
Responsible Entity's fees	12	33	38
Custody fees		18	29
Auditor's remuneration	5	5	4
Other operating expenses	4	105	95
<b>Total operating expenses</b>		<u>1,660</u>	<u>1,902</u>
<b>Operating profit/(loss)</b>		<u>18,198</u>	<u>18,253</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	8	(3,933)	-
(Increase)/decrease in net assets attributable to unitholders	7	<u>(14,265)</u>	<u>(18,253)</u>
<b>Profit/(loss) for the year</b>		<u>-</u>	<u>-</u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Statement of financial position**

		As at	
		30 June	30 June
	Notes	2011	2010
		\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	9	1,663	1,193
Receivables		4,263	182
Due from brokers - receivable for securities sold		233	19
Financial assets held at fair value through profit or loss	10	<u>116,734</u>	<u>120,654</u>
<b>Total assets</b>		<u>122,893</u>	<u>122,048</u>
<b>Liabilities</b>			
Payables		332	368
Due to brokers - payable for securities purchased		302	17
Distributions payable	8	<u>3,932</u>	-
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>4,566</u>	<u>385</u>
<b>Net assets attributable to unitholders - liability</b>	7	<u>118,327</u>	<u>121,663</u>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**Statement of changes in equity**

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>-</u>	<u>-</u>
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Statement of cash flows**

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Notes		
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	35,625	39,219
Purchase of financial instruments held at fair value through profit or loss	(16,757)	(23,836)
Dividends received	872	834
Interest received	25	30
Responsible Entity's fees and Management fees paid	(1,395)	(1,603)
Payment of other expenses	(289)	(238)
<b>Net cash inflow/(outflow) from operating activities</b>	<u>18,081</u>	<u>14,406</u>
13(a)		
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	12,453	14,503
Payments for redemptions by unitholders	(30,083)	(29,316)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>(17,630)</u>	<u>(14,813)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	451	(407)
Cash and cash equivalents at the beginning of the year	1,193	1,603
Effects of foreign currency exchange rate changes on cash and cash equivalents	19	(3)
<b>Cash and cash equivalents at the end of the year</b>	<u>1,663</u>	<u>1,193</u>
9		
Non-cash financing activities	13(b)	

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

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## 1 General information

These financial statements cover Russell World Equity Strategies Fund ("the Fund") as an individual entity. The Fund was constituted on 15 June 1998. The Fund will terminate on 14 June 2078 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is Russell Investment Management Ltd ("the Responsible Entity"). The Responsible Entity's registered office is Level 17, 19-29 Martin Place, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The Fund invests predominantly in a broad range of international shares listed in developed international markets, through investing in Russell Global Equity Strategies Fund - \$NZ Hedged and listed securities in New Zealand stock exchange. The fund also has exposure in Global Real Estate securities through Russell Europe based Global Real Estate fund. This is set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

#### *Compliance with International Financial Reporting Standards*

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

The Fund's investments are categorised as at fair value through profit or loss, which comprise:

- Financial instruments held for trading

These include derivative financial instruments including futures and foreign currency forward contracts. The Fund does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in listed equities and unlisted equity securities and unit trusts.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

##### *Financial assets and liabilities held at fair value through profit or loss*

At initial recognition, the fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit and loss.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 3(e).

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

## 2 Summary of significant accounting policies (continued)

### (e) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

Trust distributions are recognised on an entitlements basis.

### (f) Expenses

All expenses, including management fees and custodian fees, are recognised in the statement in comprehensive income on an accruals basis. The Responsible Entity is entitled under each Fund's Constitution, to be reimbursed for certain expenses incurred in administering the Fund.

### (g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

In the event that the Fund incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the profit or loss.

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

The distributions are generally payable at the end of September, December, March and June each year.

### (i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in profit or loss as finance costs.

### (j) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

## 2 Summary of significant accounting policies (continued)

### (j) Foreign currency translation (continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### (l) Receivables

Receivables may include amounts for dividends and interest. Dividends are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (m) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

## 2 Summary of significant accounting policies (continued)

### (n) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

### (o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 75%; hence investment management fees, custodial fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

### (q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

## 2 Summary of significant accounting policies (continued)

### (q) New accounting standards and interpretations (continued)

#### (ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the amended standard from 1 July 2011. The amendment will not have any effect on the Fund's financial statements.

#### (iii) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 *First-time Adoption of Australian Accounting* and AASB 7 *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Fund's disclosures. The Fund intends to apply the amendment from 1 July 2011.

#### (iv) *Amendments to AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as the result of applying the revised rules.

### (r) Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## 3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management process focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund combines managers with varied investment styles to achieve returns in a broad range of market conditions and to manage exposure to risk through diversification.

The Fund's multi-manager process differentiates it from single-manager fund companies. The Fund delegates some of the management of its funds to external Investment Managers. The risk management process operates at a number of levels. In addition to monitoring investment activity and exposure at the point of execution by an Investment Manager, the Russell Portfolio Manager oversees and monitors the overall level of risk in the Fund.

### 3 Financial risk management (continued)

#### (a) Market risk

##### (i) Price Risk

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured. They are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Russell Portfolio Manager moderates this risk by diversifying the management of its assets by allocating them between one or more Investment Managers. The Funds' Investment Managers monitor their portfolio holdings on a daily basis. The Russell Portfolio Manager will monitor each Fund's characteristics in detail with the Investment Managers at least quarterly. The Russell Portfolio Manager also reviews the Fund's portfolio characteristics in its entirety such as country allocations, capitalisation, industry sector weights, price/book levels, currency exposure, and quality exposure and other key risk measures.

The table on page 19 summarises the impact of an increase/decrease of MSCI World Net Dividends Reinvested Accumulated Index - \$NZ Hedged, which is the Fund's target benchmark, on the Fund's net assets attributable to unitholders at 30 June 2011. The analysis is based on the assumptions that the index increased/decreased by 9% (2010 - 8%) with all other variables held constant and that the fair value of the Fund's portfolio of equity securities and derivatives moved according to the historical correlation with the index. The impact mainly arises from the possible change in the fair value of listed equities, unlisted unit trusts and equity derivatives.

##### (ii) Foreign exchange risk

The Fund holds assets denominated in currencies other than the Australian Dollars, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund may utilise financial instruments to hedge against fluctuations in the relative values of their portfolio positions in addition to making active currency selections.

The Fund delegates some of the foreign exchange risk management to external Investment Managers. In addition, the Russell Portfolio Manager also oversees and monitors the foreign exchange risk of the Fund.

The table below summarises the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

	30 June 2011 New Zealand Dollars A\$'000	30 June 2010 New Zealand Dollars A\$'000
Cash and cash equivalents	1,651	1,060
Receivables	69	77
Due from brokers - receivable for securities sold	145	19
Financial assets held at fair value through profit or loss	36,963	38,767
Payables	(6)	(8)
Due to brokers - payable for securities purchased	(153)	(17)
	<u>38,669</u>	<u>39,898</u>

The table on page 19 summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened and strengthened by 11% (2010: 10%) against other currencies to which the Fund is exposed. The impact arises mainly from exposure to cash, receivables and payables denominated in New Zealand dollars. The market risk of the financial assets held at fair value through profit or loss is included within the sensitivity and price risk.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing or have a very short time to maturity. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>30 June 2011</b>				
<b>Assets</b>				
Cash and cash equivalents	1,663	-	-	1,663
Receivables	-	-	4,263	4,263
Due from brokers – receivable for securities sold	-	-	233	233
Financial assets held at fair value through profit or loss	-	-	116,734	116,734
<b>Liabilities</b>				
Payables	-	-	(332)	(332)
Due to brokers - payable for securities purchased	-	-	(302)	(302)
Distributions payable	-	-	(3,932)	(3,932)
Net exposure	<u>1,663</u>	<u>-</u>	<u>116,664</u>	<u>118,327</u>

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>30 June 2010</b>				
<b>Assets</b>				
Cash and cash equivalents	1,193	-	-	1,193
Receivables	-	-	182	182
Due from brokers - receivable for securities sold	-	-	19	19
Financial assets held at fair value through profit or loss	-	-	120,654	120,654
<b>Liabilities</b>				
Payables	-	-	(368)	(368)
Due to brokers - payable for securities purchased	-	-	(17)	(17)
Net exposure	<u>1,193</u>	<u>-</u>	<u>120,470</u>	<u>121,663</u>

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 20.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to foreign exchange risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors including historical level of changes in foreign exchange rate, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Price risk		Foreign exchange risk	
	Impact on operating profit/Net assets attributable to unitholders		Impact on operating profit/Net assets attributable to unitholders	
	2011: -9% (2010: -8%)	2011: +9 % (2010: +8%)	2011: -11% (2010: -10%)	2011: +11% (2010: +10%)
	\$'000	\$'000	NZD \$'000	NZD \$'000
30 June 2011	(10,506)	10,506	(188)	188
30 June 2010	(9,652)	9,652	(113)	113

Some limitations of the sensitivity analyses above are:

1. the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
2. the market price risk information is a relative estimate of risk rather than a precise and accurate number;
3. the market price information represents a hypothetical outcome and is not intended to be predictive; and future market conditions could vary significantly from those experienced in the past.

#### (c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

The Fund's main credit risk concentrations arise from trading equity and financial derivative instruments. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

All securities, cash at bank balances and bank overdrafts are held by the Custodian and Trustee through its affiliate, State Street Bank and Trust Company or through a sub-custodian. At the balance date the exposure to credit risk for cash and cash equivalents and amounts due from brokers is considered low as all counterparties of the Fund have a rating of Investment Grade or higher (as determined by external credit rating agencies). Periodic monitoring and an annual credit review are performed on the custodian by a credit research team. This review may include as appropriate an assessment of the custodian's liquidity position, income streams, asset quality and credit ratings.

There were no significant concentrations of credit risk to counterparties as at 30 June 2011 or 30 June 2010.

### 3 Financial risk management (continued)

#### (d) Liquidity risk

The Fund is exposed to daily cash withdrawals of redeemable units. In addition, the Fund may restrict withdrawals on a temporary basis as detailed in the Product Disclosure Statement. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

Generally, the Funds' assets are comprised of actively traded and highly liquid securities. The liquidity risks associated with the need to satisfy shareholders' requests for redemptions are mitigated by maintaining a pool of cash to satisfy usual levels of demand. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. The Fund delegates some of liquidity risk management to external Investment Managers where they monitor their liquidity positions on a daily basis. In addition, the Russell Portfolio Manager also oversees and monitors the fund's liquidity risk and portfolio characteristics in details with the external manager at least quarterly.

The table below analyses the Fund's financial liabilities excluding gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2011</b>					
Payables	-	332	-	-	-
Due to brokers - payable for securities purchased	302	-	-	-	-
Net assets attributable to unitholders	<u>118,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undiscounted contractual cash flows	<u>118,629</u>	<u>332</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 30 June 2010</b>					
Payables	28	340	-	-	-
Due to brokers - payable for securities purchased	17	-	-	-	-
Net assets attributable to unitholders	<u>121,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undiscounted contractual cash flows	<u>121,708</u>	<u>340</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### (e) Fair value estimation

The carrying amounts of all the Fund's financial assets and financial liabilities at the end of each reporting period approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

##### (i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair value for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

### 3 Financial risk management (continued)

#### (e) Fair value estimation (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

As a result of events in global markets in the past year and comparative period, liquidity in some investment markets decreased significantly. As a result, the volume of trading in some of the investments held by the Fund decreased significantly, and accordingly the valuation of those investments is subject to a greater uncertainty and requires greater judgement than would be the case in normal investment market conditions.

#### (ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

#### (f) Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	25,994	-	-	25,994
Unlisted unit trusts	-	90,740	-	90,740
<b>Total</b>	<b>25,994</b>	<b>90,740</b>	<b>-</b>	<b>116,734</b>

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	24,312	-	11	24,323
Unlisted unit trusts	-	96,331	-	96,331
<b>Total</b>	<b>24,312</b>	<b>96,331</b>	<b>11</b>	<b>120,654</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include corporate debt securities and certain unlisted unit trusts. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

##### (i) Transfers between levels

The following table presents the transfers between levels for the year ended 30 June 2011.

As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2:			
Equity securities	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 2 and 3:			
Equity securities	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 1 and 3:			
Equity securities	-	-	-
Unlisted unit trusts	-	-	-

The transfer from level 1 to level 3 relates to a New Zealand listed securities which has been delisted from the stock exchange as the company is the process of being wound up.

The following table presents the transfers between levels for the year ended 30 June 2010.

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2:			
Equity securities	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 2 and 3:			
Equity securities	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 1 and 3:			
Equity securities	(34)	-	34
Unlisted unit trusts	-	-	-

##### (ii) Movement in level 3 instruments

The following table presents the movement in level 3 instruments for the year ended 30 June 2011 by class of financial instrument.

As at 30 June 2011	Equity securities \$'000
Opening balance	11
Purchases	-
Sales	(4)
Transfers into level 3	-
Gains and losses recognised in profit and loss	(7)
<b>Closing balance</b>	<b>-</b>
Total gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year	-

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for 30 June 2010 by class of financial instrument.

As at 30 June 2010	Equity securities \$'000
Opening balance	-
Purchases	13
Sales	(44)
Transfers into level 3	34
Gains and losses recognised in profit and loss	8
<b>Closing balance</b>	<b><u>11</u></b>
Total gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year	<u>8</u>

### 4 Other operating expenses

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Transaction charges	69	70
Other	36	25
	<b><u>105</u></b>	<b><u>95</u></b>

### 5 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Year ended	
	30 June 2011 \$	30 June 2010 \$
<b>PricewaterhouseCoopers Australian firm</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	3,676	2,948
Total remuneration for audit and other assurance services	<b><u>3,676</u></b>	<b><u>2,948</u></b>
<i>Taxation services</i>		
Tax compliance services	1,100	1,474
Total remuneration for taxation services	<b><u>1,100</u></b>	<b><u>1,474</u></b>
Total remuneration of PricewaterhouseCoopers	<b><u>4,776</u></b>	<b><u>4,422</u></b>

## 6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Financial assets</b>		
Net gain/(loss) on financial assets held for trading	-	7,537
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>13,985</u>	<u>12,565</u>
Net gains/(losses) on financial assets held at fair value through profit or loss	<u>13,985</u>	<u>20,102</u>
<b>Financial liabilities</b>		
Net gain/(loss) on financial liabilities held for trading	<u>(110)</u>	<u>(1,342)</u>
Net gains/(losses) on financial liabilities held at fair value through profit or loss	<u>(110)</u>	<u>(1,342)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>13,875</u>	<u>18,760</u>

## 7 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	Year ended			
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
Opening balance	163,343	182,358	121,663	118,187
Applications	15,489	19,447	12,453	14,503
Redemptions	(38,021)	(38,462)	(30,055)	(29,280)
Units issued upon reinvestment of distributions	1	-	1	-
Increase/(decrease) in net assets attributable to unitholders	-	-	<u>14,265</u>	<u>18,253</u>
Closing balance	<u>140,812</u>	<u>163,343</u>	<u>118,327</u>	<u>121,663</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

### Capital risk management

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders. The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

## 8 Distribution to unitholders

The distributions for the year were as follows:

	Year ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
Distributions paid	1	-	-	-
Distribution payable	<u>3,932</u>	<u>2.79</u>	-	-
	<u>3,933</u>	<u>2.79</u>	-	-

## 9 Cash and cash equivalents

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	<u>1,663</u>	<u>1,193</u>
	<u>1,663</u>	<u>1,193</u>

## 10 Financial assets held at fair value through profit or loss

	As at	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Designated at fair value through profit or loss</b>		
Unlisted unit trusts	90,740	96,331
Equity securities	<u>25,994</u>	<u>24,323</u>
Total designated at fair value through profit or loss	<u>116,734</u>	<u>120,654</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>116,734</u>	<u>120,654</u>
<b>Comprising:</b>		
<b>Unlisted unit trusts</b>		
Units in Australian equity trusts	76,979	81,416
Units in International equity trusts	<u>13,761</u>	<u>14,915</u>
Total unlisted unit trusts	<u>90,740</u>	<u>96,331</u>
<b>Equity securities</b>		
Australian equity securities	2,792	471
International equity securities	<u>23,202</u>	<u>23,852</u>
Total equity securities	<u>25,994</u>	<u>24,323</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>116,734</u>	<u>120,654</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 3.

## 11 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds the following derivative instruments:

### (a) Forward currency contracts

Forward currency contracts are primarily used by the Fund to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

The Fund's derivative financial instruments at year-end are detailed below:

30 June 2011	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Spot currency contracts	154	-	-
		-	-

As at 30 June 2010, there were no derivative financial instruments held by the Fund.

An overview of the risk exposures relating to derivatives is included in note 3.

## 12 Related party transactions

### Responsible Entity

The Responsible Entity and manager of the Fund is Russell Investment Management Ltd (ABN 53 068 338 974), a wholly owned subsidiary of Russell Investment Group Pty Ltd (Australia) which is a wholly-owned subsidiary of Frank Russell Company (U.S.) ('Russell') which is a majority owned subsidiary of The Northwestern Mutual Life Insurance Company.

## 12 Related party transactions (continued)

The Responsible Entity is engaged in the business of providing investment management and administrative services on behalf of the Fund. It has appointed State Street Australia Limited to perform custody and certain administrative functions such as unit registry reporting and valuation services. To implement the multi-style, multi-manager diversification technique in relation to the Fund, the Responsible Entity will: (i) engage and, where necessary, replace the investment managers for the Fund; (ii) allocate assets among investment managers within the Fund; and (iii) monitor each investment manager's overall investment performance. For services rendered, the Fund pays the Responsible Entity a fee as discussed as below.

The Responsible Entity retains the right under the terms of its agreements with the investment managers to direct them, subject to a requirement of best execution, to execute transactions that enable it to purchase brokerage and research services that assist in the provision of investment services to the Responsible Entity and are in the best interests of the unitholders. In addition, the investment managers may elect to purchase research services for their own benefit, subject to the best execution requirement. Brokerage and research services include (1) fundamental market research including performance characteristics of asset classes, investment styles, and allocation strategies; (2) advice either directly or indirectly through publications or writings as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or of purchasers or sellers of securities, (3) analysis and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and (4) effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or that are required in connection therewith.

The Responsible Entity has received the following goods and services from brokers and dealers generally over the period of these accounts:

- written and oral research reports from brokers or dealers;
- computer based financial analytical systems, together with their associated software and servicing support; and
- statistical analyses relating to markets, companies, industries, business and economic factors, market trends and portfolio strategies.

### Brokerage commissions

The Fund may effect portfolio transactions through Russell Implementation Services, Inc., an affiliate of the Responsible Entity, when an investment manager determines that a Fund will receive competitive execution, price, and commissions. No commissions were retained by Russell Implementation Services Inc. for the year ended 30 June 2011 (2010: Nil).

Additionally, the Fund paid brokerage commissions to non-affiliated brokers who provided brokerage and research services to the Responsible Entity.

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Russell Investment Management Ltd at any time during the financial year as follows:

Alan N Schoenheimer  
Glenn T Smith  
Symon J Parish  
Christopher A Corneil  
Kenneth W Willman

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

## 12 Related party transactions (continued)

### Key management personnel unitholdings

No key management personnel of the Responsible Entity held units in the Fund as at 30 June 2011 (2010: Nil).

### Key management personnel compensation

Key management personnel are paid by Russell Investment Management Ltd. Payments made from the Fund to Russell Investment Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund since the end of the previous financial year and there were no material contracts involving director's interests existing at year end.

### Responsible Entity's/manager's fees and other transactions

Under the terms of the Fund's Constitution (as amended), the Responsible Entity is entitled to the aggregate of 0.04% per annum of that part of the total gross asset value up to and including \$500,000,000, and 0.025% per annum of that part of the total gross asset value which is more than \$500,000,000. The Responsible Entity fee is accrued daily and payable on a monthly basis. Responsible Entity fees are separately disclosed in the statement of comprehensive income.

Under the terms of the Fund's Constitution, the Responsible Entity is entitled to receive management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

Russell World Equity Strategies Fund 1.16% (2010: 1.16%) per annum.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

	Year ended	
	30 June 2011	30 June 2010
	\$	\$
Management fees for the year paid by the Fund	1,355,991	1,568,762
Responsible Entity's fees for the year paid by the Fund	33,405	37,516
Aggregate amounts payable to the Manager at the end of the reporting period	113,493	120,216
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	8,007	7,733

### Related party unitholdings

Parties related to the Fund (including Russell Investment Management Ltd, its affiliates and other schemes managed by, or under trusteeship of Russell Investment Management Ltd or its affiliates), held no units in the Fund (2010: Nil).

## 12 Related party transactions (continued)

### Investments

The Fund held investments in the following schemes which are also managed by Russell Investment Management Ltd or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable		Units acquired during the year		Units disposed during the year	
	2011 \$	2010 \$	2011 %	2010 %	2011 \$	2010 \$	2011 No.	2010 No.	2011 No.	2010 No.
Russell Global Opportunities Fund - \$NZ Hedged MSMM plc The Global Real Estate Securities Fund	76,600,890	80,975,792	24.69	30.68	4,911,624	-	1,119,190	1,673,251	18,131,429	17,768,501
NZD Hedged Russell Cash Sweep Fund	13,761,052	14,914,809	4.43	10.65	-	-	-	-	54,500	79,840
	377,652	439,734	0.10	0.11	16,281	7,841	3,356,042	2,854,919	3,419,773	2,415,185

## 13 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000

### (a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unitholders	14,265	18,253
Distribution to unitholders	3,933	-
Proceeds from sale of financial instruments held at fair value through profit or loss	35,625	39,219
Purchase of financial instruments held at fair value through profit or loss	(16,757)	(23,836)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(13,875)	(18,760)
Distribution income reinvested	(1,021)	(414)
Net change in receivables	(4,081)	(59)
Net change in payables	(8)	3
<b>Net cash inflow/(outflow) from operating activities</b>	<b>18,081</b>	<b>14,406</b>

### (b) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

	1	-
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As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

#### **14 Events occurring after the reporting period**

Since 30 June 2011, Australian and international investment markets have experienced a period of significant volatility, impacting on the valuation of the Fund's investment portfolio. As the investments are measured at their 30 June 2011 fair values in the financial report, this subsequent volatility in values are not reflected in the statement of comprehensive income or the balance sheet. However the volatility in value of investments have been reflected in the current unit price.

Other than the above, no significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the Fund for the year ended on that date.

#### **15 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 and 30 June 2010.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 31 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director

Sydney  
23 September 2011



## **Independent auditor's report to the unitholders of Russell World Equity Strategies Fund**

### ***Report on the financial report***

We have audited the accompanying financial report of Russell World Equity Strategies Fund (the registered scheme), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the financial report***

The directors of Russell Investment Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information attached to the financial report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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### ***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### ***Auditor's opinion***

In our opinion:

- (a) the financial report of Russell World Equity Strategies Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the registered scheme's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and
- (b) the registered scheme's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*TJO Peel*

TJO Peel  
Partner

Sydney  
23 September 2011